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COMBINED

ENGINEERED

PRODUCTS

LIMITED

TWENTY-SIXTH

ANNUAL

REPORT

1970

COMPRO

TWENTY-SIXTH ANNUAL REPORT 1970 **COMBINED ENGINEERED PRODUCTS LIMITED**

2242 Lakeshore Blvd. West
Toronto 500, Ontario
Canada

BOARD OF DIRECTORS

*M. O. SIMPSON, JR.	*Phoenix, Arizona, Chairman of the Board and Executive Committee*
*D. S. BEATTY	*Toronto*
J. P. CARRIÈRE	*Montreal*
*P. S. NEWELL	*Toronto*
M. O. SIMPSON	*Tucson, Arizona*
D. L. TORREY	*Montreal*
*H. M. TURNER	*Toronto*

**Members of Executive Committee* (marked *)

OFFICERS

M. O. SIMPSON, JR.	*President*
J. R. IRWIN	*Vice President*
B. T. H. KNILL	*Vice President & Secretary-Treasurer*
G. P. LANG	*Controller & Asst. Secretary*

TRANSFER AGENTS AND REGISTRARS

MONTREAL TRUST COMPANY
Edmonton, Halifax, Montreal, Toronto, Vancouver and Winnipeg

REGISTRAR AND TRANSFER COMPANY
15 Exchange Place, Jersey City 2, N.J.

AUDITORS

PARENT COMPANY AND THE CANADIAN SUBSIDIARY COMPANIES
McDonald, Currie & Co.

SOUTHEASTERN ELEVATOR
WESTBROOK ELEVATOR MANUFACTURING CO. INC.
Lybrand, Ross Bros. & Montgomery
(associated firm of McDonald, Currie & Co.)

COMPRO-FRINK CORPORATION
FRINK SNO-PLOWS
Leon W. Robb

THE DIRECTORS' REPORT

To the Shareholders of

COMBINED ENGINEERED PRODUCTS LIMITED

On consolidated sales of $20,311,985 the net earnings of the Company were $378,403, after providing $407,000 for income taxes. These earnings, after the payment of $110,000 dividends on the Preferred Shares, Series A, are equal to 44¢ per Common share as compared to 25¢ per share last year.

The earnings of the U.S. subsidiaries were slightly better than last year and have been consolidated on the basis of $1 U.S. = $1.02 Canadian. It is intended to continue converting U.S. earnings at the prevailing rate of exchange.

It is the opinion of the Directors that the theoretical foreign exchange loss representing a write down of the investment in the U.S. subsidiaries

does not in any way relate to current operations, and furthermore that this investment is already recorded on the books of the Company at below its estimated net realizable value. It is for these reasons therefore that the exchange loss of $105,192 has been charged to retained earnings rather than net earnings for the year.

Profits in the last quarter of the year were somewhat less than anticipated due to year-end inventory adjustments and the deferment of some sales planned for August to September and October. The consolidated statement of earnings contains the operating figures of Westbrook Elevator Manufacturing Co. Inc. for a full twelve months whereas the 1969 figures included this company for only three months. This accounts for most of the increase in consolidated sales and expenses in 1970.

During the year capital expenditure on production machinery, plant and office equipment was $336,920, and on land and plant buildings was $69,745. Total indebtedness including bank loans was reduced by $523,830 and working capital increased by $413,991.

At August 31, 1970 the Common Shareholders' equity was $2,089,961, equal to $3.41 per share.

The main objectives of management continue to be the reduction of costs, the elimination of low-profit product lines and the improvement of the liquidity of the Company. Good progress was made in 1970 and it is anticipated that this will continue into the 1971 fiscal year.

Despite some economic uncertainty in respect of the short term prospects for the North American economy it is expected that the 1971 results should be comparable to those of 1970.

The Annual General Meeting of Shareholders has been set for January 26, 1971. At that time the results of the first quarter of the current fiscal year will be available and it is hoped there may be some clarification in respect to the economic situation as far as it affects the Company.

On behalf of the Board of Directors,

Chairman

Toronto

November 16, 1970

CONSOLIDATED BALANCE SHEET AS AT AUGUST 31, 1970

	Cost	Accumulated Depreciation	1970	1969
ASSETS			$	$
CURRENT ASSETS				
Cash			**289,870**	251,574
Accounts receivable—trade			**2,757,236**	2,726,820
Accounts receivable—other (Note 2)			**51,073**	51,037
Inventories—at the lower of cost or net realizable value (Note 3)			**4,066,483**	4,357,485
Prepaid expenses			**138,131**	122,768
Mortgages receivable due within one year			**19,750**	8,750
Special refundable income tax			**—**	4,729
			7,322,543	7,523,163
FIXED ASSETS	$	$		
Land	179,457	—	**179,457**	195,026
Buildings	1,894,472	794,248	**1,100,224**	1,145,252
Machinery and Equipment	5,626,267	4,263,294	**1,362,973**	1,497,406
	7,700,196	5,057,542	**2,642,654**	2,837,684
Land held for sale—at cost less proceeds of portion sold			**115,275**	153,447
			2,757,929	2,991,131
OTHER ASSETS				
Excess cost of investment in businesses over book value of net assets at dates of acquisition			**21,918**	22,413
Patents—at cost, less amounts written off			**9,054**	9,513
Mortgages receivable			**21,500**	41,250
Prepaid pension expense			**26,228**	29,160
Deposits			**12,548**	—
			91,248	102,336
			10,171,720	10,616,630

	1970	1969
LIABILITIES	$	$
CURRENT LIABILITIES		
Bank loans (Note 4)	**1,911,451**	1,853,800
Accounts payable and accrued liabilities	**1,983,579**	2,122,000
Income and other taxes payable	**346,324**	219,690
Portion of long term liabilities due within one year (Note 5)	**453,474**	1,113,949
	4,694,828	5,309,439
LONG TERM LIABILITIES (Note 5)	**1,304,931**	1,225,937
DEFERRED INCOME TAXES	**82,000**	142,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized—		
200,000 Preferred Shares of the par value of $20 each, issuable in series		
1,200,000 Common Shares without nominal or par value (Note 6)		
Issued and fully paid—		
100,000 $1.10 Cumulative, Convertible Preferred Shares, Series A, redeemable at $21.50	**2,000,000**	2,000,000
612,300 Common Shares (Note 7)	**157,250**	157,250
RETAINED EARNINGS	**1,932,711**	1,769,502
EXCHANGE EQUALIZATION RESERVE	**—**	12,502
	4,089,961	3,939,254
	10,171,720	10,616,630

Signed on behalf of the Board:

M. O. SIMPSON, JR., *Director*

H. M. TURNER, *Director*

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED AUGUST 31, 1970

	1970	1969
	$	$
SALES	**20,311,985**	18,559,189
COSTS		
Cost of products sold	**15,771,182**	14,542,188
Advertising	**132,905**	162,218
Selling expenses	**973,617**	917,931
Research and product development	**79,374**	68,871
Administrative and general expenses	**1,623,281**	1,498,949
Depreciation and amortization	**511,270**	480,148
Interest on bank loans	**153,222**	144,931
Interest on long term liabilities	**148,791**	132,960
Directors' remuneration	**132,940**	72,500
	19,526,582	18,020,696
EARNINGS BEFORE INCOME TAXES	**785,403**	538,493
INCOME TAXES		
Current	**467,000**	286,000
Deferred	**(60,000)**	(10,000)
	407,000	276,000
NET EARNINGS FOR THE YEAR	**378,403**	262,493

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED AUGUST 31, 1970

	1970	1969
	$	$
BALANCE—beginning of year	**1,769,500**	1,617,009
WRITE DOWN OF INVESTMENT IN U.S. SUBSIDIARIES (Note 1)	**105,192**	—
	1,664,308	1,617,009
NET EARNINGS for the year	**378,403**	262,493
DIVIDENDS—Preferred Shares	**110,000**	110,000
	268,403	152,493
BALANCE—end of year	**1,932,711**	1,769,502
EARNINGS per Common Share (after dividends on Preferred Shares)	44¢	25¢

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Combined Engineered Products Limited and wholly owned subsidiary companies as at August 31, 1970 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination of the financial statements of the parent company and those of its subsidiary companies of which we are auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditor who has examined the financial statements of the other subsidiary company.

As set out in Note 1 to these consolidated financial statements the company has charged the unrealized foreign exchange loss of $105,192 arising on consolidation to retained earnings. In our opinion, this is not in conformity with generally accepted accounting principles which require that the unrealized foreign exchange loss be charged against net earnings for the year as an extraordinary item. Had generally accepted accounting principles been applied net earnings for the year would have been reduced by an extraordinary charge of $105,192 to $273,211 (27¢ per common share after dividends on preferred shares).

In our opinion, except for the failure to charge this unrealized foreign exchange loss to net earnings for the year these consolidated financial statements present fairly the financial position of the companies as at August 31, 1970 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDonald, Currie & Co.
Chartered Accountants

Toronto, November 4, 1970

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED AUGUST 31, 1970

	1970	1969
SOURCE	$	$
Operations—		
Net earnings for the year	**378,403**	262,493
Add: Depreciation provided	**511,270**	480,148
Deferred income taxes	**(60,000)**	(10,000)
	829,673	732,641
Disposals of fixed assets	**69,087**	876
Reduction (increase) in mortgages receivable	**19,750**	(6,250)
Reduction (increase) in prepaid pension expense	**2,932**	(29,160)
Increase (decrease) (net) in long term liabilities	**78,994**	(355,064)
Reduction in goodwill	**495**	—
Reduction in special refundable income tax	—	4,709
Excess book value of net assets acquired during year over cost thereof	—	114,804
	1,000,931	462,556
USE		
Dividends paid to preferred shareholders	**110,000**	110,000
Additions to fixed assets (net of exchange adjustment)	**346,698**	647,871
Increase in deposits	**12,548**	—
Reduction in exchange equalization reserve	**12,502**	—
Write down of investment in U.S. subsidiaries	**105,192**	—
Additions to fixed assets—re Westbrook Elevator	—	340,922
Deferred tax claim acquired—re Westbrook Elevator	—	12,000
	586,940	1,110,793
INCREASE (DECREASE) in working capital	**413,991**	(648,237)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 1970

1. Basis of Consolidation

The accounts of all subsidiary companies have been consolidated. Assets, liabilities and earnings of the United States subsidiary companies have been converted to Canadian funds at $1 U.S. = $1.02 Canadian (1969, $1 U.S. = $1.08 Canadian). The unrealized foreign exchange loss of $105,192 arising on consolidation has been charged to retained earnings in these accounts.

The 1969 figures on the consolidated statement of earnings reflect operations for three months of Westbrook Elevator Manufacturing Co., Inc.

2. Accounts Receivable—Other

This amount represents the accounts receivable repurchased under an agreement dated February 24, 1966 with Dover Corporation relating to the sale of the elevator companies.

3. Inventories

These comprise:	1970	1969
	$	$
Raw Materials	1,606,439	1,576,651
Work in Process	730,703	896,746
Finished Goods	1,729,341	1,884,088
	4,066,483	4,357,485

4. Bank Loans

Bank loans at August 31, 1970 in the amount of $2,465,000 of which $1,515,000 is shown under "Bank loans", $300,000 under "portion of long term liabilities due within one year" and $650,000 under "long term liabilities", have been secured by pledging the inventories and trade accounts receivable of the divisions of the parent company and its Canadian subsidiaries.

5. Long Term Liabilities

	Long Term	Portion due within one year
	$	$
Demand bank loans—scheduled for repayment at varying amounts per year to December 31, 1974 ($950,000 secured: Note 4)	843,800	381,600
Westbrook Elevator—5% mortgage note due May 31, 1986 secured by fixed assets with net book value of $175,000	205,042	8,885
Equipment leases	105,783	37,756
Sundry notes and mortgages	150,306	25,233
	1,304,931	453,474

6. Common Shares

125,000 Common Shares are reserved for the conversion of the $1.10 Cumulative, Convertible Preferred Shares, Series A. Each such Preferred Share may be converted to 1¼ Common Shares to December 1, 1970, and to 1 Common Share thereafter to December 1, 1972.

7. Dividend Restriction

The provisions of the $1.10 Cumulative, Convertible Preferred Shares, Series A prevent the payment of dividends on the Common Shares unless, immediately after giving effect to such action, the aggregate amount of dividends paid subsequent to August 31, 1962 on all shares of the company will not be more than the consolidated net earnings since that date. Before dividends on the Common Shares can be paid, therefore, additional consolidated net earnings (after payment of the cumulative dividends on the Preferred Shares) of $1,655,000 must be made.

8. Unfunded Pension

Employees' pension plans have an unfunded liability at August 31, 1970 of approximately $370,000. The company intends to fund this amount over 20 years.

9. Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid or payable by the company and its subsidiaries to the directors and senior officers of the company amounts to $240,872 which includes the amounts of $124,240 for remuneration and $8,700 for fees, the total of which is shown as directors' remuneration in the consolidated statement of earnings.

10. Long Term Leases

Annual rentals on real property leases of more than three years' duration approximate $130,000. Such leases expire at varying dates before 1993.

11. Contingent Liabilities

Under the terms of an Agreement dated February 24, 1966 with Dover Corporation for the sale of the elevator companies, the company may be called upon to reimburse Dover for liabilities arising prior to February 28, 1966 which were not recorded as at that date. If these liabilities are deductible for income tax purposes by the elevator companies, then the reimbursement which the company may be called upon to make is reduced by 50%. Under the terms of this indemnity, which expires on December 31, 1973, the company is aware of unsettled litigation in the United States for amounts totalling $675,000. These actions have arisen between the date of sale and the present time. During the year claims amounting to $125,000 were dismissed. In the opinion of management the above actions will be settled for materially less than $675,000, and furthermore would be deductible for income tax purposes. It is impossible at this time to ascertain what, if any, payment will have to be made in respect to these actions.

COMBINED ENGINEERED PRODUCTS LIMITED

2242 Lakeshore Blvd. West,
Toronto 500, Ontario

CANADIAN DIVISIONS

FORT GARRY AUTOMOTIVE INDUSTRIES *Winnipeg, Manitoba; Regina and Saskatoon, Saskatchewan and Port Arthur, Ontario*	*D. L. Suché,* *President*
HAMILTON GEAR AND MACHINE COMPANY *Toronto, Ontario and Montreal, Quebec*	*P. H. Slaughter,* *President*

CANADIAN SUBSIDIARIES

EASTERN STEEL PRODUCTS LIMITED *Preston, Ontario and Montreal, Quebec*	*J. R. Irwin,* *President*
LAWRON INDUSTRIES LIMITED	
AMERICAN WRINGER *Farnham, Quebec*	*J. R. Irwin,* *President*
BUSH ROLLER *Toronto, Ontario*	*R. Wordham,* *General Manager*

U.S. SUBSIDIARY

COMPRO-FRINK CORPORATION	
FRINK SNO-PLOWS *Clayton, New York*	*S. P. Lockhart,* *President*
SOUTHEASTERN ELEVATOR *Atlanta, Georgia*	*R. A. Davis,* *President*
WESTBROOK ELEVATOR MANUFACTURING CO. INC. *Danville, Virginia*	*R. A. Davis,* *President*

COMBINED ENGINEERED

PRODUCTS LIMITED

INTERIM REPORT

TO SHAREHOLDERS

FOR THE SIX MONTHS

ENDED FEBRUARY 28, 1970

COMPRO

COMBINED ENGINEERED PRODUCTS LIMITED

To The Shareholders:

The increase in sales and profits for the first six months of this year is the result of improved operations at the Company's major divisions.

More efficient use of working capital resulted in an increase in cash flow and the Company's indebtedness is being materially reduced.

It is expected that profits for the balance of this year will compare favourably with those of the same period a year ago.

M. O. SIMPSON, JR.
Chairman and President.

INTERIM CONSOLIDATED STATEMENT OF EARNINGS

(Subject to Year End Adjustments and Audit)

FOR THE SIX MONTHS ENDED FEBRUARY 28, 1970

	February 28 1970	February 28 1969
	$	$
SALES	11,054,603	9,190,420
PROFIT BEFORE INCOME TAXES	515,712	321,933
ESTIMATED INCOME TAXES	265,400	170,100
NET PROFIT FOR THE PERIOD	250,312	151,833
EARNINGS PER COMMON SHARE	31.9¢	15.7¢

INTERIM CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

(Subject to Year End Adjustments and Audit)

FOR THE SIX MONTHS ENDED FEBRUARY 28, 1970

SOURCE		
Operations		
Profit for the period	250,312	151,833
Depreciation provided	263,083	232,741
	513,395	384,574
Decrease in mortgages receivable	750	—
Increase in long term liabilities	328,926	259,954
	843,071	644,528
USE		
Dividends paid to preferred shareholders	55,000	55,000
Additions to fixed assets—net	126,529	402,327
	181,529	457,327
INCREASE in working capital	661,542	187,201
WORKING CAPITAL at beginning of year	2,213,724	*2,236,961
WORKING CAPITAL at end of period	2,875,266	2,424,162
CURRENT ASSETS	8,298,873	7,251,262
CURRENT LIABILITIES	5,423,607	*4,827,100
	2,875,266	2,424,162

*The working capital at August 31, 1969 reflected the $825,000 balance on the 4½% Debentures as a current liability. The working capital at August 31, 1968 has been adjusted to reflect a similar amount for comparative purposes.